

A nonprofit organization may be exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954 where it is formed to provide housing and food service exclusively for students and faculty of a university in accordance with the rules and regulations of the university and offers the university an option to acquire the property at any time upon payment of an amount equal to the outstanding indebtedness.

Advice has been requested whether under the circumstances described below an organization qualifies for exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

A nonprofit organization was formed to provide housing and food service exclusively for students and faculty of a university which lacks adequate student and faculty housing. The organization acquired land near the university and constructed the necessary facility. The facility is managed by a commercial firm in accordance with the rules and regulations of the university. It is made available to the student body generally at rates comparable to those charged by the university for similar facilities. Each room is equipped with an outlet for the university-sponsored educational television series. Counselling, tutoring, and special courses are also provided as a supplement to the university's activities. The university is an organization described in section 501(c)(3) of the Code.

Income is derived from rents and charges for food. Funds are expended for operating expenses and debt retirement. Any surplus from operations is donated, annually, to the university. The university has an option to purchase the facility at any time for an amount equal to the outstanding indebtedness.

Section 501(c)(3) of the Code provides that an organization organized and operated exclusively for charitable or educational purposes is exempt from Federal income tax.

Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations defines the term 'charitable' as used in section 501(c)(3) of the Code as including the advancement of education.

By providing a housing facility under the circumstances described the organization is advancing education. Accordingly, the organization qualifies for exemption from Federal income tax under section 501(c)(3) of the Code.

An organization which considers itself within the scope of this Revenue Ruling must, in order to establish exemption under section 501(c)(3) of the Code, file Form 1023, Exemption Application, with the District Director of Internal Revenue for the internal revenue district in which is located the principal place of business or principal office of the organization. See

section 1.501(a)-1 of the regulations.